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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended April 30, 1992

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 0-16566

VARITRONIC SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

PROCESSED BY
11-11-V
JUN 12 1992

Minnesota	41-1442400
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

300 Interchange North
300 Highway 169 South
Minneapolis, Minnesota 55426
(Address of principal executive offices) (Zip Code)

612-542-1500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

BEST COPY AVAILABLE

On June 10, 1992, there were 3,049,227 shares of the registrant's $.01 par value common stock outstanding.

VARITRONIC SYSTEMS, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS
ASSETS

	(UNAUDITED) APRIL 30, 1992	JULY 31, 1991
Current assets:		
Cash and cash equivalents	$ 788,191	$ 3,244,230
Accounts receivable, net	7,979,075	7,508,175
Inventories:		
Finished goods	6,389,937	6,665,462
Raw materials and component parts	4,043,248	4,610,785
Total inventories	10,433,185	11,276,247
Other current assets	1,234,618	1,129,769
Total current assets	20,435,069	23,158,521
Property and equipment, net	2,292,317	1,671,947
Other assets	327,026	525,006
Total assets	$23,054,412	$25,355,474

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	$ 2,096,377	$ 1,844,725
Accrued liabilities	811,576	1,016,841
Total current liabilities	2,907,953	2,861,566
Stockholders' equity:		
Common stock, $.01 par value, 10,000,000 shares authorized; 3,143,427 and 3,679,159 shares issued and outstanding	31,434	36,792
Additional paid-in capital	575,084	4,292,522
Retained earnings	19,539,941	18,164,594
Total stockholders' equity	20,146,459	22,493,908
Total liabilities and stockholders' equity	$23,054,412	$25,355,474

See accompanying notes to unaudited consolidated condensed financial statements

VARITRONIC SYSTEMS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

	THREE MONTHS ENDED APRIL 30,		NINE MONTHS ENDED APRIL 30,	
	1992	1991	1992	1991
Net sales	$9,487,836	$10,261,921	$27,190,798	$30,034,265
Cost of sales	5,441,015	5,470,677	15,357,940	16,041,521
Gross profit	4,046,821	4,791,244	11,832,858	13,992,744
Operating expenses:				
Marketing and sales	1,521,112	1,620,843	4,590,425	4,828,671
General and administrative	1,533,818	1,539,498	4,348,931	4,632,710
Research and development	423,237	233,165	1,066,154	623,823
Total operating expenses	3,478,167	3,393,506	10,005,510	10,085,204
Income from operations	568,654	1,397,738	1,827,348	3,907,540
Other income	16,047	23,623	260,346	154,445
Interest expense	(691)	(39,658)	(2,347)	(41,656)
Income before income taxes	584,010	1,381,703	2,085,347	4,020,329
Provision for income taxes	200,000	500,000	710,000	1,475,000
Net income	$ 384,010	$ 881,703	$ 1,375,347	$ 2,545,329
Net income per share	$.12	$.24	$.40	$.70
Weighted average shares outstanding	3,256,000	3,650,000	3,453,000	3,645,000

See accompanying notes to unaudited consolidated condensed financial statements

VARITRONIC SYSTEMS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	NINE MONTHS ENDED APRIL 30,	
	1992	1991
Operating activities:		
Net income	$ 1,375,347	$ 2,545,329
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	726,971	887,894
Provision for inventory valuation allowance	100,000	125,000
Provision for uncollectible accounts receivable	(3,518)	6,811
Other	170,000	(3,609)
Changes in operating assets and liabilities:		
Accounts receivable	(467,382)	(1,299,527)
Inventories	743,062	(2,072,936)
Other current assets	(104,849)	(273,875)
Accounts payable	251,652	287,462
Accrued liabilities	(205,265)	(224,574)
Net cash provided (used) by operating activities	2,586,018	(22,025)
Investing activities:		
Additions to property and equipment	(1,242,206)	(379,111)
Other	(77,155)	(163,860)
Net cash used by investing activities	(1,319,361)	(542,971)
Financing activities:		
Repurchase of common stock	(4,020,406)	-
Proceeds from sale of common stock under incentive stock option plan and employee stock purchase plan	297,510	96,682
Net cash (used) provided by financing activities	(3,722,796)	96,682
Net decrease in cash and cash equivalents	(2,456,139)	(468,314)
Cash and cash equivalents at beginning of period	3,244,330	2,190,460
Cash and cash equivalents at end of period	$ 788,191	$ 1,722,146

See accompanying notes to unaudited consolidated condensed financial statements

VARITRONIC SYSTEMS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

1. Consolidated Condensed Financial Statements:

The unaudited consolidated condensed financial statements as of April 30, 1992, and for the three and nine months then ended, reflect, in the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position and results of operations for the interim periods. The unaudited consolidated condensed interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's report on Form 10-K for the year ended July 31, 1991.

2. Common Stock Repurchase:

During the nine months ended April 30, 1992, the Company repurchased 596,287 shares of its common stock at prices ranging from $5.56 to $7.81 per share. No shares were repurchased by the Company during the nine months ended April 30, 1991.

3. Sale of Insignia Systems, Inc. Common Shares:

In January 1992, the Company sold 49,915 shares of Insignia Systems, Inc. (Insignia) common stock, reducing its holding to 184,011 shares. The investment in Insignia common shares was recorded in the financial statements at a zero cost basis. The net proceeds of $187,177 on the sale of these shares was included in other income. No Insignia common shares were sold during the quarter ended April 30, 1992.

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS:

Net sales of $9,488,000 for the third quarter of fiscal 1992 reflect a decrease of $774,000 or 7.5% from net sales of $10,262,000 in the comparable period in the prior year, primarily due to a decrease of $719,000 in international sales. International sales decreased by 21.3% from the third quarter of last year, with decreases recorded in sales of machines, consumable supplies and accessory products. International sales in total were 27.9% of net sales in the current period compared to 32.8% in the prior year. Several factors adversely affected international sales including a reorganization of the European distribution network, increased competition and softness in the economy. Domestic sales decreased by less than 1% from the year ago period. Machine sales decreased by 19.3% from the third quarter of fiscal 1991. The current offering of machines carry a lower suggested retail price than that of a year ago. The Company introduced the Accent™, a portable labeling system, in the current quarter. The Accent has a suggested retail price of $995 which is significantly lower than the suggested retail prices of the Company's other lettering machines. The Accent is distributed by the Company's independent dealers and three new private label distributors. Sales of Accent machines, consumable supplies and accessory products accounted for approximately 10% of current quarter net sales. Sales of consumable supplies decreased by 4.0% from last year's third quarter and represented 69.7% of current period net sales compared to 67.1% in the same period last year. Sales of accessory products were approximately 6% of net sales for both quarters.

Net sales for the nine months ended April 30, 1992, were $27,191,000 which compares to net sales of $30,034,000 for the nine months ended April 30, 1991. The decrease in nine month sales is principally due to a decline in international sales, which is consistent with the third quarter comparisons. Current period international sales decreased by 26.5% from the nine months ended April 30, 1991. International sales comprised 25.9% of current year-to-date sales compared to 31.9% in the year ago period. Domestic sales decreased by 1.5% from the nine months ended April 30, 1991. Machine sales in total represented 27.4% of total net sales during the current nine-month period compared to 29.6% last year, while sales of consumable supplies increased to 66.1% of net sales in the current period versus 64.2% in last year's nine-month period ended April 30.

RESULTS OF OPERATIONS (continued):

Gross margin decreased from 46.7% and 46.6% for the third quarter and nine months ended April 30, 1991, to 42.7% and 43.5% for comparable periods in the current year. The decrease in the current quarter margin compared to the third quarter of last year resulted from several factors. The Company charged $302,000 to operations for excess inventories in the current year third quarter, compared to $77,000 in the year ago period, and $508,000 in the current nine-month period compared to $314,000 in the year ago period. In addition, overall margins on consumable supply sales decreased, as the supply sales mix shifted away from the more mature, higher margin Merlin and Merlin Express supplies to other supply products which carry lower margins. Finally, the Company has increased its aggressive pricing discounts on certain of its machines.

Operating expenses for the third quarter of fiscal 1992 increased by $85,000 from the third quarter of fiscal 1991. Marketing and sales expenses decreased by $100,000 compared to the third quarter in fiscal 1991. Promotional expenses decreased by over $300,000 in the current year third quarter due to revisions in product promotions and decreases in sales incentives costs which are directly related to sales volume. Increases in media and direct mail advertising, and other advertising program costs partially offset the decrease in promotional expenses. Research and development expenses increased by $190,000 compared to the third quarter of fiscal 1991 due to increased spending for new product development.

Operating expenses for the nine months ended April 30, 1992, were $10,006,000, a decrease of $79,000 from the comparable period in fiscal 1991. Marketing and sales expenses decreased by $238,000 for the nine months ended April 30, 1992, compared to the same period in fiscal 1991. Promotional expenses decreased by almost $550,000 between the comparable periods for the reasons noted above. The decrease in promotional expenses was partly offset by a $187,000 increase in media and direct mail advertising, and other advertising program costs. General and administrative costs decreased by $284,000 during the nine months ended April 30, 1992, compared to the nine months ended April 30, 1991. Research and development costs increased by $442,000 between the same periods due to increased research activity for new product development and a change in classification of certain costs from general and administrative to research and development expense. These costs are principally labor related and reflect a change in the functional responsibility of a number of employees.

RESULTS OF OPERATIONS (continued):

Other income for the nine months ended April 30, 1992, included a gain of $187,000 realized on the sale of 49,915 shares of Insignia Systems, Inc. common stock in January 1992. The shares were included in the financial statements at a zero cost basis. The remaining balance of other income is interest income for all periods presented.

The Company provided for income taxes at a 34.2% and 34.1% rate for the current quarter and nine months compared to an effective tax rate of 36.4% for fiscal 1991. The effective tax rate decrease is due to the current period tax deductibility of the basis in Insignia Systems, Inc. shares sold. This basis was previously treated as a non-deductible capital loss for financial reporting in fiscal 1990.

LIQUIDITY AND CAPITAL RESOURCES:

Cash and cash equivalents at April 30, 1992, totaled $788,000, a decrease of $2,456,000 from July 31, 1991. Cash provided by operations for the nine months ended April 30, 1992, was $2,586,000 which compares to cash used by operations of $22,000 for the comparable period in fiscal 1991. The most significant use of cash during the current nine-month period was the repurchase of 596,000 of the Company's common shares at a total cost of $4,020,000.

The Company maintains a $10,000,000 line of credit with a bank in Minneapolis. As of April 30, 1992, and for the nine months then ended, the Company had no outstanding borrowings under this line of credit.

The Company expects that it will continue to finance its working capital and capital expenditure needs for the foreseeable future from present cash balances, internally generated funds and its bank line of credit.

DISTRIBUTION RIGHTS:

The Company distributes the PosterPrinter and PosterPrinter Plus on an exclusive basis in certain countries under distribution agreements with C. Itoh and Co., Ltd. (C. Itoh), a Japanese trading company. C. Itoh is the Company's sole supplier of these machines and related paper supplies. The Company can maintain exclusive distribution rights under these contracts by meeting certain minimum machine unit order requirements. The Company has met all minimum order requirements under the contract governing exclusive distribution rights of the PosterPrinter Plus in North America. The Company has not met the minimum order requirements for the PosterPrinter under the contract for exclusive European distribution. Although technically in default, the Company does not expect to lose its exclusive European distribution rights and is negotiating a revised contract for European distribution. Certain market conditions in Europe at the effective date of the current contract have had a negative effect on the Company's ability to successfully launch this product. C. Itoh is aware of these market restraints and has not notified the Company of its intent to terminate exclusive distribution rights under this contract. To date, sales under the European distribution agreement have not been material.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits: None

(b) Reports on Form 8-K: No reports on Form 8-K have been filed during the quarter.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: June 10, 1992

VARITRONIC SYSTEMS, INC.

Norbert F. Nicpon
Vice President of Finance and
Administration and Chief
Financial Officer